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NATIONAL TAX ADMINISTRATION IN THE PHILIPPINES

ELIAS E. VEGA* AND RALPH B. SHORT**

On August 1, 1964, the Philippine Bureau of Internal Revenue held a picnic in Taytay, Rizal Province, attended by more than 2,000 persons, to celebrate the 60th anniversary of its founding. The Philippine Bureau of Internal Revenue was organized on August 1, 1904, some six years after the Philippines came under the control of the United States. Its present complement of approximately 6,000 employees administers a variety of National Government taxes and can claim credit for providing roughly sixty per cent of total National Government revenues.

PRINCIPAL NATIONAL TAXES

In the fiscal year ending June 30, 1964, ₱1,302,696,000 was collected from the following tax sources:¹

Source of Income	Amount Collected	Per Cent
Specific taxes	₱374,087,474.31	28.72
License, business and occupational taxes	433,313,564.06	33.26
Franchise tax	8,078,972.68	.62
Documentary stamp tax.....	17,601,270.09	1.35
Income tax	419,655,917.75	32.22
Estate, inheritance and gift taxes.....	7,063,837.49	.54
Residence tax	9,983,142.50	.77
Revenue from public forests.....	15,955,323.03	1.22
All others (including fines).....	16,956,531.29	1.30
TOTAL GROSS COLLECTION	₱1,302,696,033.20	100.00

Specific taxes designate taxes in fixed amount per unit, levied upon such items as distilled spirits, wines, fermented liquors, tobacco,

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¹ Statistics Division, Bureau of Internal Revenue. At current free exchange rates, one peso equals about 25.64 cents, or 3.9 pesos equals one dollar.

matches, firecrackers, oils and fuels, motion picture film, playing cards, and saccharine.

License, business, and occupation taxes include business taxes, sales taxes, and percentage taxes. Business taxes are annual fixed taxes levied on importers, manufacturers, millers, restaurateurs, common carriers, brewers, distillers, rectifiers, wholesalers, retailers of distilled liquors, soft drinks and tobacco, brokers and lending investors, with all other businesses with annual gross sales of ₱2,000 and over covered by a graduated annual fixed tax.² Sales taxes vary in rate from 7 per cent on non-luxury items to 100 per cent on imported automobiles which exceed ₱10,000 in landed cost plus mark-up. There are percentage taxes based on gross selling price less raw materials previously taxed, or on gross receipts, varying from 2 per cent on milled products, common carriers, and keepers of garages to 100 per cent on locally manufactured automobiles. Luxury and semi-luxury items are included at rates of 15, 30, and 50 per cent.³

The National Internal Revenue Code provides for both an estate tax and an inheritance tax. The burden of the estate tax falls on the estate of the decedent, while the inheritance tax is borne by the beneficiaries. There is also a gift tax on both donor and donee, with applicable rates depending on degree of consanguinity and affinity.⁴

The residence tax includes four categories. Residence Tax A consists of a tax of fifty centavos per person on all inhabitants of the Philippines over eighteen years of age who are regularly employed, have a business or occupation, or own property. The receipt or registration certificate referred to locally as the "cedula" is required for identification when acknowledging documents before a notary public, taking an oath of public office, receiving a license or permit from any public authority, paying taxes, receiving public funds, and receiving salaries or wages.⁵

Residence Tax B is a combination of a tax on property owned and gross receipts, after certain exemptions, and salaries, and applies to individuals. Residence Tax C is a similar tax on corporations. Residence Tax D imposes a tax of twenty centavos on individuals not subject to residence tax who desire a residence certificate for identification purposes.⁶

Revenue from public forests, commonly referred to as forest charges,

² INT. REV. CODE § 182(a) (2), PHIL. ANN. LAWS tit. 72, § 189(a) (2) (1957).

³ INT. REV. CODE §§ 184, 185, PHIL. ANN. LAWS tit. 72, §§ 191, 192 (1957).

⁴ INT. REV. CODE §§ 109, 110, PHIL. ANN. LAWS tit. 72, §§ 118, 119 (1957).

⁵ C.A. No. 465, § 6 (1939), PHIL. ANN. LAWS tit. 72, § 430 (1957).

⁶ C.A. No. 465, § 3 (1939), PHIL. ANN. LAWS tit. 72, § 437 (1957).

represents the fees paid by the holders of government licenses to cut and remove timber and other forest products from specified tracts of land owned by the government, and from unregistered private lands. The charges are based on cubic meters of timber and on fixed units of other forest products removed, and are payable at the time of removal unless a bond is posted.⁷

The income tax, producing about one-third of annual gross tax collections, is patterned closely after the 1939 Internal Revenue Code of the United States. The Philippines initially became subject to an income tax by the Act of October 3, 1913, of the United States Congress which applied to income earned on and after March 1, 1913. The specific provisions of that act extended the provisions thereof specifically to the Philippines with provisions that the law be administered and enforced by the Internal Revenue Office of the Philippine Government. By the Act of October 3, 1917, of the United States Congress, and by the Revenue Act of 1918, the Philippine Legislature was empowered to amend, alter, modify or repeal the Federal Income Tax Law then in force in the Philippines. The Legislature enacted the Income Tax Law on March 9, 1919, as Act No. 2833. On June 15, 1939, Commonwealth Act No. 466, commonly known as the National Internal Revenue Code, was enacted, incorporating as title II thereof the Income Tax Law.

Rates of income tax applicable to taxable income vary from three per cent in the lowest bracket to sixty per cent in the highest bracket. Present tax rates and brackets are set forth below:

Taxable Income	Rate	Taxable Income	Rate
P0 - 2,000	3%	P80,000 - 90,000	48%
P2,000 - 4,000	6%	P90,000 - 100,000	50%
P4,000 - 6,000	9%	P100,000 - 120,000	52%
P6,000 - 8,000	16%	P120,000 - 140,000	53%
P8,000 - 10,000	20%	P140,000 - 160,000	54%
P10,000 - 20,000	24%	P160,000 - 200,000	55%
P20,000 - 30,000	30%	P200,000 - 250,000	56%
P30,000 - 40,000	36%	P250,000 - 300,000	57%
P40,000 - 50,000	40%	P300,000 - 400,000	58%
P50,000 - 60,000	42%	P400,000 - 500,000	59%
P60,000 - 70,000	44%	P500,000 - and over	60%
P70,000 - 80,000	46%		

⁷ INT. REV. CODE §§ 265-66, 273, PHIL. ANN. LAWS tit. 72, §§ 268, 269, 276 (1957).

Joint returns are required for married couples. There is an exemption of ₱3,000 for the head of a household and for husband and wife on a joint return.⁸ A single individual is entitled to an exemption of ₱1,800.⁹ A ₱1,000 exemption is provided for each child dependent who is not more than twenty-three years of age, unmarried, not gainfully employed, or physically or mentally incapable of self-support.¹⁰ The law provides for a standard deduction in lieu of itemized deductions, computed at ten per cent of gross income, but not to exceed ₱1,000.¹¹ Deductions for charitable contributions and gifts to the government are limited to six per cent of net income.¹² No deduction is allowed for any portion of medical expenses. While there is withholding at the source on wages and certain other designated payments, there is no provision for payment of an estimated tax.

A common misconception exists among Filipinos and aliens to the effect that, because the United States has the highest income tax rates in the world (until recently ninety-one per cent on the top bracket), the burden of taxation under United States law is heavier than that imposed by Philippine law. However, if we rely on the absolute figures, use a rate of exchange of \$1 to ₱3.90 and apply 1964 rates, it will be found that in a wide middle range of income brackets a husband and wife claiming the standard deduction would pay more tax under Philippine law than under United States law. The point at which Philippine tax exceeds United States tax for a husband and wife without dependents starts at about \$4,260 or ₱16,600 and continues until an income of roughly \$149,400 or ₱582,600 is reached. A single individual using the standard deduction would pay more Philippine tax at a point beginning at about \$5,880 or ₱22,940 to \$40,100 or ₱156,350. Such computations have not taken into account, however, the differences in standard of living or per capita income in the two countries.

Out of 4.4 million families in the Philippines in 1961, consisting of more than six persons per average household, 76 per cent had incomes of less than ₱2,000. Another 22.6 per cent had income between ₱2,000 and ₱10,000. Only 1.4 per cent had income above ₱10,000 which is the equivalent of \$2,564.¹³ According to the Bureau of Internal Revenue, the number of taxpayers in each bracket of taxable income was as fol-

⁸ INT. REV. CODE §§ 23(b), 45(d), PHIL. ANN. LAWS tit. 72, § 23(b), 45(d) (1957).

⁹ INT. REV. CODE § 23(a), PHIL. ANN. LAWS tit. 72, § 23(a) (1957).

¹⁰ INT. REV. CODE § 23(c), PHIL. ANN. LAWS tit. 72, § 23(c) (1957).

¹¹ INT. REV. CODE § 30(k), PHIL. ANN. LAWS tit. 72, § 30(k) (1957).

¹² INT. REV. CODE § 30(h), PHIL. ANN. LAWS tit. 72, § 30(h) (1957).

¹³ Philippine Bureau of Census & Statistics Partial Report, Phil. Statistical Survey of Households Bull. No. 14.

lows, for the 1962 tax year, when the population of the Philippines exceeded 29 million:

Taxable Income	Number of Taxpayers	Taxable Income	Number of Taxpayers
₱ 0,000 - 2,000	65,578	₱ 80,000 - 90,000	66
₱ 2,000 - 4,000	15,905	₱ 90,000 - 100,000	63
₱ 4,000 - 6,000	7,122	₱100,000 - 120,000	80
₱ 6,000 - 8,000	3,883	₱120,000 - 140,000	51
₱ 8,000 - 10,000	2,465	₱140,000 - 160,000	27
₱10,000 - 20,000	4,482	₱160,000 - 200,000	38
₱20,000 - 30,000	1,618	₱200,000 - 250,000	18
₱30,000 - 40,000	749	₱250,000 - 300,000	13
₱40,000 - 50,000	440	₱300,000 - 400,000	8
₱50,000 - 60,000	272	₱400,000 - 500,000	7
₱60,000 - 70,000	145	₱500,000 - and over	12
₱70,000 - 80,000	95		

A corporation income tax of twenty-two per cent on the first ₱100,000 of net income and thirty per cent on any excess applies to domestic corporations and resident foreign corporations, with lower rates for building and loan associations and private educational institutions. Special provisions are made for life insurance companies, and there are numerous Republic Acts which grant exempt status to special categories of industrial activity.

Certain areas of taxation are specifically reserved for chartered cities, provinces, and municipalities. Principal among these sources is the tax on real property at rates which generally do not exceed one per cent of assessed value for provinces and municipalities and two per cent for cities. Assessed values on real property have been stated to average some 42 per cent of current value, but vary throughout the country from 10 to 90 per cent of actual value. Most property tax rolls of assessed values have not been updated for more than ten years, and some for more than thirty years. Other local government sources include local license taxes and fees. In recent years, in the interest of strengthening local government finances, additional taxing powers have been provided even at the lowest level of local government organization, the barrio or village.¹⁴ Local government officials are inclined to

¹⁴ Local Autonomy Act, R.A. No. 2264 (1959), *PHIL. ANN. LAWS* tit. 17, § 135.20 (Supp. 1, 1963), Barrio Charter, R.A. No. 2370 (1959); *PHIL. ANN. LAWS* tit. 17, § 135.50 (Supp. 1, 1963).

look to the National Government for finances rather than bear the responsibility for imposing additional local taxes. The principal support of the local governments comes from the allotment of National Government tax collections according to varying formulas for different types of taxes. In Fiscal Year 1964, local governments received ₱204,000,000 or 15.8 per cent of total National Government tax collections.

Republic Act No. 2070, approved June 13, 1958, and commonly known as the Tax Census Law, requires a return to be filed by every corporation, partnership, and resident over eighteen years of age each four years starting with 1957, setting forth for each entity information in some detail as to assets, liabilities, and income. The idea behind the enactment of this law was to assist in the enforcement of other tax laws. However, in the years since the enactment of the Tax Census Law, Congress has indicated from time to time that it did not intend that information secured from tax census returns be utilized in individual income tax cases. These statements set forth the idea that the Tax Census Law was to provide basic guideline data for enforcement of other tax laws. Initially, the Bureau of Internal Revenue expected eleven million tax census returns, but in 1957 only 1,756,007 individual returns and 8,872 corporate and partnership returns were filed. An even poorer showing was made for the year 1961, when 1,620,064 returns were received as of August 1, 1963.

ORGANIZATION OF THE BUREAU OF INTERNAL REVENUE

Until 1955 the Bureau of Internal Revenue was operated on a centralized basis by the National Office in Manila. In August of 1955, the first step was taken toward decentralization of control by the establishment of two regional offices, one in the Visayas and the other in Mindanao. Each regional office was designed along the lines of the National Office and was at that time described as "a miniature Bureau of Internal Revenue."¹⁵ During the following two years, additional regional offices were established dividing the entire Philippines into eight regions for purposes of tax administration. The number of regions was expanded to ten in 1963 and to fifteen in 1964.¹⁶ At the present time regional office headquarters are located in the following cities: Baguio, Tuguegarao, San Fernando, Quezon City, Manila (north of Pasig

¹⁵ Blaquera, *Address of the Collector of Internal Revenue*, 1955 ANNUAL ACCOUNTING SEMINAR, PHILIPPINE INSTITUTE OF ACCOUNTANTS 7.

¹⁶ Rev. Reg. (Phil.) 3-63 (1963).

River), Manila (south of Pasig River), San Pablo, Naga, Tacloban, Cebu, Bacolod, Iloilo, Cagayan de Oro, Davao, and Zamboanga.

The Commissioner of Internal Revenue, with the assistance of the Deputy Commissioner, is responsible for formulating policies in administering and enforcing tax laws and regulations. To meet these responsibilities, the work of the National Office is divided among eight departments and thirty-three divisions.¹⁷

The Assessment Department exercises technical and functional authority over tax assessment; this includes the office and field examination of all types of tax returns. The Income Tax Division of the Assessment Department recommends and coordinates policies and programs relating to the examination of tax liabilities and the assessment of estate, inheritance, gift, and residence taxes. The Business Tax Division develops and coordinates policies and programs relating to license, business and occupation taxes, as well as documentary stamp taxes, forest charges, mining, and amusement taxes. The Withholding Tax Division is responsible for processing all withholding income tax returns, and for taking all necessary action in approving claims for tax credit and refund in cases of over-withholding. This division also exercises functional supervision and coordination over work performed by the fifteen regions in the withholding tax area. The Narcotics Division assists in controlling the importation, manufacture, exportation, and distribution of narcotic drugs through the issuance of permits and import certificates, and the investigation of apparent violations of law. The Investigation Division of the Assessment Department was initially formed to conduct investigations of tax fraud and to operate in a manner similar to the Intelligence Division of the United States Internal Revenue Service. It also coordinates the work in regional investigation branches.

The Specific Tax Department has functional responsibility for specific taxes including processing, examination and assessment of taxes. Guidance is exercised over the specific tax function at the regional level. Four divisions of the Specific Tax Department specialize in the areas of tobacco and miscellaneous tax, alcohol, tobacco inspection service, and specific tax enforcement.

The Legal Department supervises prosecution of tax cases in the various courts, gives its consideration to proposed legislation, interprets existing laws and regulations, and performs advisory duties for the

¹⁷ See the appendix for a simplified chart of organization.

Commissioner in implementing the administration of tax laws. Its Appellate Division conducts conferences with taxpayers who disagree with the findings of the revenue examiners, and considers taxpayers' protests. The Law Division prepares rulings, opinions, regulations and circulars for the implementation of the tax laws and conducts research and studies for the purpose of drafting needed legislation and issuing tax bulletins. The Litigation Division represents the Commissioner in the trial of Internal Revenue cases, in collaboration with the Solicitor General and the provincial and city fiscals, which are the equivalent of prosecuting attorneys in the United States.

The Collection Department is the staff and advisor to the Commissioner in the collection area. It is responsible for recommending and coordinating procedures for the collection of delinquent taxes, for the reporting of collections, and for advising the regional offices in the collection area. It performs its responsibilities through two divisions, the Delinquent Accounts Division and the Collection Agents Division.

The Inspection Department, modeled after the United States Internal Revenue's Inspection Service, performs the internal audit of all elements of the bureau and polices the conduct of Internal Revenue employees by performing character investigations and investigating allegations and complaints of misconduct. The budget document for Fiscal Year 1965 provides for a new division within the Inspection Department, which will perform a continuing internal audit over fiscal and cash operations and the control of physical property. This division, known as the Internal Audit Service, has not, at this writing, been activated. Its functions will diminish, in the identified areas, the work of the Inspection Division.

The Special Services Department is composed of four divisions, Tax Census, Tax Information, Data Processing Center, and the Laboratory Center. The Tax Census Division is responsible for processing of tax census reports required by the Tax Census Law and for coordinating similar work in the regions. The Tax Information Division is responsible for the public information program of the Bureau of Internal Revenue and for the dissemination of material to advise taxpayers of their rights and responsibilities under the tax laws. The Data Processing Center is presently operating punch-card IBM equipment for the listing of delinquent accounts, tax returns, tax census returns, a master list of taxpayers, tabulations of miscellaneous data, and the preparation of payrolls and salary and refund checks. The Laboratory Center

performs specialized laboratory work in connection with the administration of specific taxes on alcohol production.

The Management and Planning Department performs its responsibilities through four divisions—the Budget Division, the Accounting Division, the Statistical Division, and the Organization and Methods Staff. The Budget Division directs and coordinates preparation of the financial planning activities of the Bureau, including the annual requests for funds and the processing of vouchers and warrants drawn against the Bureau's appropriations. The Accounting Division maintains a general ledger of the Bureau and all other records reflecting financial transactions. The Statistical Division accumulates and maintains the data necessary to estimate future tax collections. For this purpose, it also compiles other statistical information on business and economic conditions which may affect revenue estimates. The Organization and Methods Staff is the arm utilized to study problem areas and recommend and coordinate future changes in procedures and organization to improve day to day operations.

The Administrative Services Department performs the usual functions of such a department through its General Services Division, the Personnel Division, the Cash and Disbursements Division, the Training Division and the Property Division.

A Review Staff operating directly under the Commissioner reviews for him the assessments made by the National Office and the larger assessments made by the regional offices for the purpose of insuring uniformity and accuracy.

In October 1964, the Commissioner created the Office of International Operations, replacing the International Operations Staff in the Assessment Department. The new Office of International Operations is responsible directly to the Commissioner for assisting in the development and implementation of policies and procedures relative to import and export taxation, foreign exchange, and all cases involving tax laws of other countries. It also provides technical research support to negotiations for tax conventions and to Internal Revenue extension services abroad.¹⁸

The fifteen regional offices of the Bureau of Internal Revenue are organized similarly to the National Office.¹⁹ At the regional level, the functions of the Assessment Department and Specific Tax Department

¹⁸ At this writing Philippine Internal Revenue attachés are assigned for duty at the Philippine embassies in London, Tokyo, and Washington, D.C.

¹⁹ See the appendix for a simplified chart of organization.

in the National Office are combined in the Income and Business Tax Branch, except that alcohol and tobacco taxes, and investigations, are administered through separate branches.

The regions are divided into inspection districts, each of which is headed by a Chief Revenue Officer. There are 72 inspection districts throughout the Philippines. The Chief Revenue Officer is responsible for all phases of tax administration within the geographical area of his district. In outlying provinces the Chief Revenue Officer is responsible for an entire province. In the city of Manila there are four chief revenue officers, three in the North Manila Regional Office and one in the South Manila Regional Office. In the adjoining Quezon City Regional Office, which is a part of the greater Manila area, there are an additional six chief revenue officers whose responsibility extends through Bulacan, Rizal and Cavite Provinces.

To assist him in performing his duties, the Chief Revenue Officer has a staff composed of revenue examiners, collection agents, cash clerks, and clerical personnel. The revenue examiners are responsible for the examination and investigation of tax returns. The collection agents, most of whom have posts of duty in municipalities, receive tax returns and payments of Internal Revenue taxes, and issue official receipts. In offices where a Cash Clerk is also stationed, the Collection Agent is able to leave the office to contact taxpayers and collect delinquent accounts from IBM lists prepared for him.

PROCESSING PROCEDURES AND EXAMINATION OF RETURNS

The two major types of returns required of taxpayers, both corporate and individual, are the income and the percentage tax returns. Income tax returns are filed either on a calendar year or a fiscal year basis. A calendar year return is required to be filed on or before April 15 of the year following the close of the taxable year. Fiscal year returns are required to be filed on or before the 15th day of the fourth month following the close of the taxable year. Taxpayers subject to the percentage tax are required to file monthly returns covering sales or receipts. The payment of the percentage tax is made monthly, not later than the 20th day of the month following that reported on.

After the individual income tax returns have been received, they are numbered under a system in which each regional office is assigned blocks of numbers. Then these returns are classified into three groups: non-taxable returns, returns for office audit, and returns for field audit

and investigation. Normally this classification is performed in regional offices by the Income and Business Tax branches. Returns filed with the National Office are referred to the appropriate region for processing.

Non-taxable returns are filed with the Administrative Branch of each region for future reference. They may be requisitioned for subsequent investigation by the Investigation Division of the National Office or by a regional investigation branch, if information has been received or discovered indicating possible irregularities, or otherwise reflecting the desirability of a field examination. Unless individually requisitioned, these returns are not examined.

Returns which are classified for office audit include those with gross income of ₱50,000 or less and are assigned to the office audit unit of the Income and Business Tax Branch of the particular region. This audit does not involve the examination of the books of account of the taxpayer, except in cases where additional information is necessary to complete the audit. Normally the office audit procedure consists of a mathematical verification of figures and computations on the return, a determination of the correctness of the personal and additional exemptions claimed, and a scrutiny of claimed deductions which do not appear to be deductible under the law. The taxpayer may be requested to furnish substantiation for exemptions and deductions claimed, in the form of birth certificates, marriage licenses, receipts, invoices, and other appropriate documents. If a deficiency is determined at the conclusion of an office audit, a deficiency income tax notice is sent to the taxpayer.²⁰

Income tax returns requiring field investigation are further classified into three classes, depending upon the gross income declared by the taxpayer. Returns with gross income or gross receipts of from ₱50,000 to ₱200,000 are Class C returns, and those in the ₱200,000 to ₱500,000 bracket are Class B returns. Those returns with gross income or gross receipts in excess of ₱500,000 are designated Class A returns. For purposes of assigning returns, revenue examiners are designated as Class A, Class B, or Class C examiners, based solely on their respective abilities without regard to Civil Service range or grade of position held.

The groundwork is thus laid for a raffle or lottery to determine the returns to be assigned to each examiner. Class A returns are assigned to Class A examiners, Class B returns to Class B examiners, and Class C returns to Class C examiners. Numbered beads are drawn from a

²⁰ Rev. Order (Phil.) 36-64 (Sept. 6, 1964).

bottle by examiners of each class. The number drawn is matched with an envelope marked with the same number containing several returns which are then assigned to the examiner. The raffle is conducted under the jurisdiction of a committee composed of representatives of the National and regional offices.²¹

In prior years, after initial assignments by group supervisors, examiners were free to requisition additional returns which they felt should be investigated. This resulted in problems with some examiners who were not well grounded in honesty and integrity. There was a "squabble" to obtain the so-called "juicy" returns.²² In addition, some examiners were inclined to protect friends by securing a friend's returns for a superficial examination with a finding of no discrepancy. Such possibilities were conducive to collusion between taxpayers and examiners, and gave rise to graft and corruption.²³ These conditions led to adoption of the raffle system. Now examiners are prohibited from requisitioning returns, except for those with a close connection to returns already assigned.

In order to avoid harassment of taxpayers and to prevent certain examiners from contacting taxpayers for an ostensible examination of returns which have not been assigned, the Bureau of Internal Revenue imposes the additional control of requiring that a "Letter of Authority" issued by a Regional Director or a Chief Revenue Officer be received by the examiner prior to commencement of any examination. This letter is addressed to the taxpayer and indicates the name of the examiner authorized to conduct the investigation, as well as the period or year to be investigated. The original of the letter must be served on the taxpayer, and a copy is required to be submitted with the report of examination. From time to time unscrupulous individuals pose as revenue examiners and serve taxpayers with forged letters of authority.

Field investigation of a taxpayer's percentage tax returns is conducted once or twice a year with the examination usually covering a six months' period. Here, the examiner is given the duplicate copies of six percentage tax returns for a single examination.

In order to avoid unnecessary delays in closing field investigations, the examiner is required to submit his report of investigations within a period of 120 days from the date indicated on the letter of authority.

²¹ Rev. Circular (Phil.) 22-64 (June 27, 1964).

²² Lina, *Procedures in Tax Investigation*, 1955 ANNUAL ACCOUNTING SEMINAR, PHILIPPINE INSTITUTE OF ACCOUNTANTS 23, 25.

²³ *Ibid.*

Timely submission of the report of investigation automatically terminates the letter of authority, and the examiner cannot make a further investigation unless renewed authority is subsequently issued.²⁴

The report of investigation is reviewed by a Group supervisor, who forwards it to the Chief Revenue Officer for further review at the inspection district level. If approved, the report is forwarded to the Regional Director for final review and assessment action if the total tax liability is less than ₱40,000, and the deficiency tax does not exceed ₱20,000. Larger cases are forwarded to the National Office for review and assessment action. Reports which are questioned are returned to the examiner for further investigation or clarification. After the report of investigation has been received by the Chief Revenue Officer, a letter of confirmation is sent to the taxpayer informing him that the investigation has been completed and that the report of examination has been received.²⁵

Audit procedures and thoroughness in field investigations vary with the education, training, ability and industriousness of the individual examiner. With the limited use of commercial banking facilities for business transactions, especially in the provinces, and with medium and smaller business transactions unsupported by invoices and other records, the revenue examiner faces a constant challenge to his ingenuity in attempting to determine the correct tax liability. He must be on the lookout for fictitious invoices and forged documents tendered him by unscrupulous taxpayers. The revenue examiner is considerably handicapped in field investigation work by a law prohibiting examination of bank deposit records in ordinary cases.²⁶ Violation subjects offenders, upon conviction, to imprisonment of not more than five years or a fine of not more than ₱20,000, or both. Curiously, the penalty for tax evasion is a fine not exceeding ₱4,000, or imprisonment not exceeding one year, or both.²⁷

Commissioner Tabios recently initiated several data gathering projects in an attempt to assist examiners in their work. Data gathered

²⁴ Rev. Circular (Phil.) 22-64 (June 27, 1964).

²⁵ *Ibid.*

²⁶ R.A. No. 1405, approved Sept. 9, 1955, PHIL. ANN. LAWS tit. 10, § 370-74 (1957), provides that deposits with banks or banking institutions in the Philippines are considered to be "of an absolutely confidential nature and may not be examined, inquired or looked into by any person, government official, bureau or office, except on written permission of the depositor, or in cases of impeachment, or upon order of a competent court in cases of bribery or dereliction of duty of public officials, or in cases where the money deposited or invested is the subject matter of litigation."

²⁷ INT. REV. CODE § 73, PHIL. ANN. LAWS tit. 72, § 73 (1957).

from Government offices, motor vehicle registrations, logging permits, foreign exchange transactions, real property holdings and sales thereof, and from other sources is to be listed for association with tax returns to alert examiners to factors which might affect tax liability. It may take time before the Bureau begins to realize tangible benefits from these projects.

The Investigation Division and the Investigation Branches are responsible for investigating tax fraud. They are handicapped by lack of referrals from field examiners, who appear reluctant to surrender substantial cases which they have developed. In addition, there appears to be a definite reluctance on the part of the ordinary citizen to make himself available as a witness in a tax fraud case against a neighbor or an acquaintance. Needless to say, witnesses are vitally necessary for success in this area. In any event, criminal prosecutions for tax evasion have not been numerous, and the writers know of no taxpayer who has been sentenced to imprisonment for tax evasion within the past ten years.

WITHHOLDING AND TAX REFUNDS

The withholding tax on salaries and wages is based on the withholding exemption certificate required to be filed by each employee with his employer indicating the number of dependents claimed. A withholding tax table is furnished every employer for use in withholding an appropriate amount each payroll period.²⁸ At the end of the calendar year, every employer is required to file an alphabetical list of his employees with the Commissioner of Internal Revenue, reflecting the amount withheld for each. In addition, the employer is required to issue a withholding statement in duplicate to each employee from whom tax was withheld. The withholding statement indicates the total salaries or wages received by each employee and the total amount withheld. This withholding statement is attached by the employee to his individual income tax return, on which he is required to compute his tax liability. The employee is entitled to a credit for the tax withheld. If the amount withheld exceeds the tax due, the excess is refunded to the taxpayer after scrutiny by the Withholding Tax Division, without necessity of filing a written claim for refund.

If a taxpayer erroneously pays tax in excess of that legally due, he must file a written claim for refund with the Commissioner within two

²⁸ R.A. No. 590, § 12 (1950), *PHIL. ANN. LAWS* tit. 72, § 85-93 (1957).

years of the date of payment in order to recover the erroneous overpayment.²⁹

However, if after a written claim for refund has been filed within the statutory period of two years, the taxpayer has reason to believe that the Commissioner will not reach a decision on his claim, he can file suit for the recovery of taxes illegally or erroneously collected.³⁰ If timely action is not instituted by the taxpayer, and the Commissioner of Internal Revenue finally decides adversely after the lapse of two years from the date the tax was paid, the taxpayer has no further recourse with the courts to obtain a refund of the tax overpayment.

However, if the Commissioner of Internal Revenue denies the claim for refund filed by the taxpayer, the latter has the right to file a petition for review of the Commissioner's adverse decision with the Court of Tax Appeals, an intermediate court, provided that such petition is filed within thirty days after receipt of the Commissioner's decision.³¹

COLLECTION OF DELINQUENT TAXES

The normal problems involved in collecting delinquent taxes are made more difficult in the Philippines by the climate, the geography, and the topography of the country. Of some 7,000 islands, approximately 1100 are populated. The islands are situated from 5 to 19 degrees north latitude, and from 400 to 800 miles off the coast of Southeast Asia. Mountain ranges make some of the municipalities inaccessible except by boat. Seasonal rains and typhoons bring floods, wash out bridges and roads, and disrupt communication facilities. Another problem in the collection of taxes is the extremely limited banking system. Several provinces do not have a single bank within their borders. The average Filipino does not maintain a savings account nor does he use a commercial checking account for the payment of bills and taxes. Most money transactions are made in cash. With respect to language, there are said to be more than 80 dialects. Filipino, based primarily on the Tagalog dialect, is the national language. English is widely spoken. Collection letters are usually in English. Such a situation, nonetheless, presents a sizeable handicap.

Until 1960 collection of national taxes was the responsibility of the city, provincial and municipal treasurers. The responsibility of the Bureau of Internal Revenue was limited to tax determination and as-

²⁹ INT. REV. CODE § 309, PHIL. ANN. LAWS tit. 72 § 309 (1957).

³⁰ INT. REV. CODE § 306, PHIL. ANN. LAWS tit. 72, § 306 (1957).

³¹ R.A. No. 1125, § 11 (1954), PHIL. ANN. LAWS tit. 72, § 523 (1957).

essment. By Congressional Act approved by the President,³² tax collection was transferred to the Bureau of Internal Revenue and 2,000 positions were created to do the work; 1,157 of the positions were for collection agents; the balance of 843 were for collection or cash clerks. These collection positions have never achieved prestige in the eyes of Bureau employees. Many individuals initially assigned to collection work seemed to prefer field examination work, and numbers of collection agents were successful in securing extended temporary details to do field examination work as revenue examiners. However, Commissioner Tabios has succeeded to some extent in withdrawing such temporary details.

Under existing instructions³³ the collection agents and cash clerks are required to deposit tax collections with the municipal treasurer whenever the total accumulation of collections amounts to ₱500 or more. Cash deposits which the municipal treasurer receives from collection agents are forwarded to the provincial treasurer. The provincial treasurer deposits these amounts with a branch of the Philippine National Bank and issues a Philippine National Bank check against the funds which is forwarded directly to the National Treasurer of the Philippines by the collection agents. Bank checks, money orders and other non-cash items representing tax collections are forwarded by the collection agents directly to the National Treasury. Collection agents are required to submit monthly reports setting forth amounts collected during the month, by names of taxpayers and types of tax involved. These reports proceed through channels to the Regional and the National Offices.

When taxes are collected, the collection agent prepares an official receipt in four copies, using carbon paper. The handwriting of the collection agent, the deterioration of the carbon paper and the length of time it takes the receipt copies and the reports of the collection agents to reach the regional office and the National Office of the Bureau of Internal Revenue aggravate efforts to achieve an accurate and up-to-date listing of the balances of delinquent accounts outstanding. Added to this is the temptation to alter names and figures on copies of the official receipt to cover embezzlement of funds.³⁴

³² R.A. No. 2655, §§ 1-8 (1960), *PHIL. ANN. LAWS* tit. 72, § 6-7 (1957).

³³ Rev. Order (Phil.) 31-63 (June 27, 1963).

³⁴ During the fiscal year ended June 30, 1964, 94 collection agents and collection clerks were charged administratively and criminally for offenses ranging from unauthorized absence to malversation of public funds. Two have been convicted by the courts and four cases were ordered dismissed by the Civil Service Commission. See TABIOS,

The steadily increasing accumulation of delinquent accounts outstanding represents one of the most serious problems of the Bureau of Internal Revenue. As of August 1, 1964 delinquent taxes exceeded ₱471 million. Despite repeated campaigns to collect delinquent taxes, such as "Operations Collections" conducted April to June, 1964, little headway has been made. In the face of a commitment to Congress to collect ₱100 million in that collection drive, less than ₱10 million was collected. The drive also resulted in the writing off of an additional ₱105 million in delinquent accounts which were found to be double-listed or previously paid.

The Bureau of Internal Revenue attempted for almost a decade to have the collection function transferred from the local treasurers. Despite ultimate success with the passage of Republic Act No. 2655, collection work is still being performed in 42 of the 72 inspection districts by or with the assistance of the municipal treasurer or personnel from his office.³⁵ Many of these inspection districts are isolated areas where it is uneconomical to maintain full-time collection agents.

ADMINISTRATION AND CONTROL

The relatively high rate of unemployment in the Philippines leaves thousands of college graduates in law and accounting each year unable to find suitable jobs. Obtaining employment in the Government or in the private sector becomes a matter of being sponsored by someone with influence. This is true when it comes to filling vacancies in the Bureau of Internal Revenue.

Legally, attorneys and certified public accountants are automatically eligible for Civil Service appointments to Bureau positions, including the position of revenue examiner.³⁶ Civil Service registers usually are not used in filling vacancies; rather, provisional appointments of these automatic eligibles speed up the recruitment process and take into account requests of Congressmen that certain constituents be employed. These practices have caused noticeable deterioration in the career service that existed before and immediately following World War II.

Dismissal of employees under the Civil Service Law is reserved to the Commissioner of Civil Service.³⁷ Administrative charges preferred

FIFTY-SEVENTH ANNUAL REPORT OF THE COMM'R OF INTERNAL REVENUE FOR THE FISCAL YEAR JULY 1, 1963 TO JUNE 30, 1964 61 (1964).

³⁵ TABIOS, *op. cit.* *supra* note 34, at 59.

³⁶ R.A. No. 1080 (1954), as amended by R.A. No. 1844 (1957), PHIL. ANN. LAWS tit. 60, §§ 51-54 (1957).

³⁷ R.A. No. 2260 (1959), PHIL ANN. LAWS tit. 60, §§ 55.501.547 (Supp. 3, 1964).

against an employee are forwarded through channels to the Civil Service Commission, which holds hearings prior to arriving at its final decision. It may take two years before final decision is reached. The erring employee may be suspended for sixty days, but in the absence of a Civil Service decision at the end of the period of suspension, the employee returns to work, receives pay for the period of suspension, and is in a position to assume an attitude of defiance toward his superiors who preferred the charges. Such procedures can cause a high degree of frustration to a Commissioner of Internal Revenue intent upon improving efficiency by weeding out employees who are incompetent, lazy, and sometimes dishonest.

The Inspection Department, established on July 1, 1963, is charged with responsibility of the internal audit functions and the policing of employee conduct. The Inspection Division, with a present staff of about sixteen, performs internal audit examinations of the various Regional Offices and the provincial offices of Chief Revenue Officers. It operates in teams of two or three technicians who travel to the office to be examined and spend five to ten working days examining compliance with statutes, regulations, and procedural directives. Detailed reports of examination are submitted through channels to the Commissioner of Internal Revenue setting forth the findings of the Inspection Team. The correction of deficiencies is the responsibility of line management. The Inspection Division has the duty of determining the facts.

The Internal Security Division investigates cases of complaints and allegations of misconduct against employees. It is also charged with the responsibility of making character investigations on all new technical personnel. Facts developed by inspectors are set forth in reports directed to the Commissioner with the recommendation of the Personnel Division. The Commissioner's recommendation in each case of proven misconduct is forwarded to the Secretary of Finance for approval. It is then referred to the Civil Service Commission for decision.

Control of all tax returns and other official papers rests with the Records Control Section of the Administrative Services Department on cases investigated by the Investigation Division or the Office of International Operations; other returns are filed in the administrative branch of each regional office. Records Control Section maintains files of the originals of the returns, the latter being requisitioned by field exam-

iners when a deficiency assessment is to be made. All reports of revenue examiners and other papers connected with the returns are attached to and made a part of the original tax return file. Loss of the tax return file is usually fatal to the Government's case for additional tax or for collection of a self-assessed amount.

APPEALS AND JUDICIAL REVIEW

The intricate provisions of the National Internal Revenue Code and special acts passed by Congress relating to taxation give rise to interpretations thereof by the Commissioner of Internal Revenue which may not be acceptable to the taxpayer against whom an assessment is made. However, since administrative authority rests with the Commissioner, a decision on each tax case must be made, and this decision leads to the issuance of a letter of demand or an assessment notice to the taxpayer for a fixed amount of tax. The taxpayer can choose one of three courses to follow upon receipt of such a letter. He can pay the tax demanded, or he can request the Commissioner for reconsideration of the assessment or letter of demand. The Appellate Division of the Legal Department reconsiders such cases. The right of the taxpayer to appeal to the Secretary of Finance was recognized under section 79(b) of the Revised Administrative Code until June 16, 1954, when the Court of Tax Appeals was created by Republic Act No. 1125.

The third alternative is to file a petition for review of the assessment or demand with the Court of Tax Appeals within thirty days after receipt of the letter of demand or the assessment notice.³⁸ Such appeals to the Court of Tax Appeals do not suspend payment, levy, distraint, or sale of any property of the taxpayer for the satisfaction of his tax liability as provided by existing law.³⁹ However, when in the opinion of the Court, collection of the tax by the Bureau of Internal Revenue might jeopardize the interest of the Government or the taxpayer, the Court at any stage of the proceedings may suspend collection action and require the taxpayer either to deposit the amount claimed or to file a surety bond with the court for not more than double the disputed amount.⁴⁰ When a bond is filed, the Court of Tax Appeals invariably issues an order enjoining the Commissioner from proceeding with collection of the tax pending the decision on appeal.

³⁸ R.A. No. 1125, § 11 (1954), PHIL. ANN. LAWS tit. 72, §§ 513-35 (1957).

³⁹ *Ibid.*

⁴⁰ *Ibid.*

Upon receipt of the appeal, the Court calendars the case for hearing and taking of evidence from the taxpayer in support of his contention that the assessment is erroneous or subject to revision. Evidence is also taken from the Commissioner in support of his decision holding that the assessment is correct. Under the law the Court is required to decide the case within thirty days after submission for decision.⁴¹ If an adverse decision of the Court becomes final, the taxpayer is required to pay the tax plus penalties and interest.

However, if the taxpayer or the Commissioner of Internal Revenue feels that the decision of the Court is not in accordance with the law, the aggrieved party may appeal to the Supreme Court upon a writ of certiorari, or a petition for review, as the case may be, and the case is pursued in accordance with the Rules of the Court.⁴² The decision of the Supreme Court in any case appealed to it from the decision of the Court of Tax Appeals is final and binding upon the taxpayer and the Commissioner of Internal Revenue.

CONTINUING PROBLEMS—THE FUTURE

Shortly after he assumed office early in 1964, Commissioner Benjamin N. Tabios, after recommendations from members of Congress, made the decision to install electronic data processing equipment to maintain data on taxpayers for all types of taxes, to match data from a variety of sources, to ferret out non-filers and to maintain up-to-date records of delinquent taxes payable. A contract was signed with IBM Philippines, Inc. for the leasing of a 1401 Data Processing System to be installed in the National Office in July, 1965. At this writing, it has not been finally decided whether key punching operations will be performed entirely in the National Office, or whether there will be one or more field offices assigned the key punch function for designated portions of the country.

There is much work yet to be done in standardizing and smoothing out procedures, securing the prompt submission of all types of reports from remote provinces, and re-designing many of the report forms now in use to insure a system that can be programmed into the leased equipment to produce the desired improvement of enforcement and administration. A committee designated by Commissioner Tabios is primarily responsible for planning in this area.

⁴¹ R.A. No. 1125, § 13 (1954), *PHIL. ANN. LAWS* tit. 72, § 525 (1957).

⁴² R.A. No. 1125, § 18 (1954), *PHIL. ANN. LAWS* tit. 72, § 530 (1957).

The Philippine Bureau of Internal Revenue has modelled its field organization in a manner similar to that of the United States Internal Revenue Service. However, there has been reluctance to delegate authority commensurate with the respective responsibility shouldered by the Regional Directors and Chief Revenue Officers.

The employment of personnel, including appointment of hundreds of temporary workers during peak periods, remains the responsibility of the Commissioner. Even his actions must be approved by the Secretary of Finance. Regional Directors have authority to finalize assessment of additional income tax deficiencies of not more than ₱20,000 per case, provided that total tax liability does not exceed ₱40,000. If the deficiency exceeds ₱20,000 or if total tax liability exceeds ₱40,000, existing procedures require review by the appropriate division of the National Office.⁴³ Such a review may consist of an office review by a technician sitting at his desk, or it may include a re-investigation through further contact with the taxpayer and his records if this is necessary. In the past there was no limitation on the number of re-investigations that could be made of any tax return. In 1964 Commissioner Tabios set forth a policy that except where unusual circumstances exist only one investigation would be made of each tax return.

It is the expressed intention of the Commissioner that, as Regional Directors and their subordinate personnel demonstrate appropriate abilities, greater authority will be delegated to them in all areas of tax administration. A negative factor in decentralizing the Commissioner's authority is the advent of electronic data processing, which requires that certain operations and responsibilities should be centralized in the interest of efficient and economical utilization of expensive equipment.

The Training Division of the Bureau of Internal Revenue has established a reputation over the past years as having one of the most superior training operations in the Philippine Government. Emphasis up to the present has been on tax law and theory rather than on practical aspects of field examination work and report writing. Treatment of the collections function has been negligible, probably because the Bureau's short experience in this area since 1960 has not given it time to develop collection experts.

In early 1964, in the interest of improving training throughout the Department of Finance and negating the influence of politics in the

⁴³ Rev. Admin. Order (Phil.) 13-64 (Nov. 2, 1964).

selection of key officials,⁴⁴ the Secretary of Finance designated a committee to plan for the establishment of a Finance Academy which would administer training programs for the Department and its four Bureaus—Customs, Treasury, Insurance Commission, and Internal Revenue. At this writing, Assistant Secretary of Finance Jose B. Antonio has been appointed Acting Director of the Academy, which was inaugurated on December 1, 1964. On that date the first classes for Finance officials commenced; they included two courses of six months duration in executive development for selected middle and top management personnel of Customs and Internal Revenue. In addition to training for Departmental personnel, future courses are planned for selected officials from among city, provincial, and municipal treasurers and assessors.

Congressional bills affecting taxation emanate from one of several sources. The Joint Legislative-Executive Tax Commission was created in 1959 to recommend new tax legislation to the Congress and the Executive Branch. It is composed of three members of the House of Representatives, three senators and three appointees of the President who may or may not be members of the President's Cabinet. A sizeable and competent technical staff conducts the necessary research. The Bureau of Internal Revenue utilizes its Legal Department and other expert technicians to prepare its recommendations for new legislation for consideration by the Administration. The Revenue Promotion Division of the Department of Finance also has responsibility for recommending new legislation. Recently, the Administration relied on the Program Implementation Agency for finalization of its position on legislative proposals affecting taxation. At present, the Tax Commission is engaged in studies preparatory to submitting a proposed re-draft of the entire National Internal Revenue Code.

In the final analysis, the future of the Bureau of Internal Revenue rests largely on improved personnel administration, on success in converting to electronic data processing, on the operation of the Finance Academy to enhance and professionalize a career service, and on realistically facing the mounting problem of unpaid delinquent taxes.

⁴⁴ The Philippines Herald of Sept. 21, 1964, reported the following statement from the announcement by the Secretary of Finance of the opening of the Finance Academy, Dec. 1, 1964:

The Finance Academy is designed to eliminate political influence in the management and personnel administration in the department of finance.

Bureau of Internal Revenue
ORGANIZATIONAL CHART
November 2, 1964

